# Sustaining The Military Health Benefit

# Overview

- Vision and Goals
- The Increasing Value of TRICARE since 1995
  - Benefit Enhancements
  - Customer Service Improvements
- Key Points
- Proposed Changes
- Conclusion

## Vision

Maintain an exceptional health benefit for those we serve by placing the program on a sound fiscal foundation for the long term

## Goal

Pass legislation and implement rule changes in 2006 that allow the Department to adjust the benefit and manage it more effectively for the long term

# Enhancements to the TRICARE Benefit Since 1995

- Active Duty & Their Families
  - Introduced TRICARE Prime Remote for service members and their families
  - Eliminated all Prime cost-sharing for care delivered to AD Family Members by civilian providers…virtually no out-of-pocket costs
  - Added TRICARE Reserve Select for activated Guard and Reserve members and their families

- Retirees & Families
  - Reduced catastrophic cap for retirees under age 65 from $7,500 to $3,000
  - Introduced civilian prescription drug benefit for Medicare-eligible beneficiaries
  - Introduced TRICARE For Life, which established TRICARE as a second payer to Medicare for dual-eligible beneficiaries

# Enhancements in TRICARE Customer Service

- Expanded network of hospitals, providers and pharmacies
- Dramatically improved claims processing, becoming an industry leader in timeliness and accuracy of claims payment
- Co-located TRICARE Service Centers in more military facilities over the years
- Eliminated the requirement for Non Availability Statements for TRICARE Standard beneficiaries, greatly expanding customer choice for inpatient care
- Introduced 1-800-TRICARE, toll-free customer service, linking beneficiaries to the right support system quickly and easily

# Key Points

- DoD provides the best health benefit program in the Nation – TRICARE
  - This is the promise that DoD must keep
  - Rated No. 1 in an independent Survey
  - TRICARE has been continually expanded and improved since 1995 inception
- Superior health benefit must be sustained for the long run – actions now will avert a crisis in the future
- Current program trend is unsustainable
  - Costs have doubled in 5 years from $19B in FY 01 to $38B in FY 06
  - Analysts project costs to reach $64B in 2015
  - DoD Health currently **8%** of total DoD Budget, will be **12%** in 2015, was **4.5%** in 1990
- Internal efficiency is not sufficient to stem the tide of rising health care costs
  - Costs have grown due to many factors: expansion of benefits, increased use by retiree beneficiaries, health inflation, and no change in TRICARE premiums in last 10 years
  - Beneficiaries paid 27% of total costs in 1995 and are paying 12% today
  - Program benefit adjustments were not previously made
- Benefit adjustments are necessary now to ensure future US military capability and a strong national defense
  - Individual and government cost contributions must be rebalanced to approach 1995 share levels
  - Active Duty members are not affected
  - Even after changes, TRICARE will remain superior to the best private employer plans

# Strategy

- Achieve a financial balance between government and individual health care contributions to approach the levels when TRICARE was inaugurated in 1995
- Encourage beneficiaries to partner with the Military Health System to make choices that improve their health and conserve resources
- Enhance appropriate pharmacy choices for beneficiaries and secure DoD authority to obtain the lowest drug prices available

# Framework for Benefit Adjustments

- Most of the changes affect retirees under age 65
- No changes in active duty service member cost-sharing (remains at zero)
- Minimize changes in active duty family member cost-sharing (slight increase in civilian pharmacy co-pays for generic and brand name drugs)
- Recognize income differences among the retired ranks
- Maintain very low catastrophic cap of $1000 for Active Duty family members and $3000 for retirees and their families
- Minimal changes for retirees over age 65 (small pharmacy co-pay changes)

## Summary of Proposed Changes to TRICARE Benefit

| Enrollment Fee and Deductible Changes * Two Year Phase-In (FY07-08) | | | |
|---|---|---|---|
| | TRICARE Prime Annual Enrollment Fees | TRICARE Standard | |
| | | Annual Enrollment Fees | Annual Deductible |
| | Retired Junior Enlisted (E-6 and Below) | | |
| Current (FY 06) | $230/$460 | $0 | $150/$300 |
| FY 07 | $275/$550 | $75/$150 | $175/$350 |
| FY 08 | $325/$650 | $140/$280 | $185/$370 |
| FY 09+ | Adjusted | | |
| | Retired Senior Enlisted (E-7 and Above) | | |
| Current (FY 06) | $230/$460 | $0 | $150/$300 |
| FY 07 | $350/$700 | $100/$200 | $175/$350 |
| FY 08 | $475/$950 | $200/$400 | $185/$370 |
| FY 09+ | Adjusted | | |
| | Retired Officers | | |
| Current (FY 06) | $230/$460 | $0 | $150/$300 |
| FY 07 | $500/$1,000 | $150/$300 | $225/$450 |
| FY 08 | $700/$1,400 | $280/$560 | $280/$560 |
| FY 09+ | Adjusted | | |

** Applies ONLY to eligible retirees under age 65; no changes to active duty, active duty family members, or TFL*

# Benefit Change Summary

- **No Fees for Active Duty**
- **No Changes for Active Duty Families**

## For Retirees Under 65:

- **New Three Tier Fee Structure:**
  - Retired Junior Enlisted (E6 and Below)
  - Retired Senior Enlisted (E7 and Above)
  - Retired Officers
- **Increased Enrollment Fees for Prime**
- **New Enrollment Fee for Standard**
- **Increased Deductibles for Standard**
- **Prime and Standard Enrollment Fees adjusted using Federal Employees Health Benefit Plan (FEHBP) rates of inflation beginning in FY 2009**

| Changes in Pharmacy Co-payments * | | | |
|---|---|---|---|
| | Generic | Brand | Non-Formulary |
| | Current Co-pays | | |
| Military Clinic | $0 | $0 | $0 |
| Mail Order | $3 | $9 | $22 |
| Retail | $3 | $9 | $22 |
| | Co-pays in FY07 and after | | |
| Military Clinic | $0 | $0 | $0 |
| Mail Order | $0 | $9 | $22 |
| Retail | $5 | $15 | $22 |

** Applies to ALL eligible beneficiaries, except active duty*

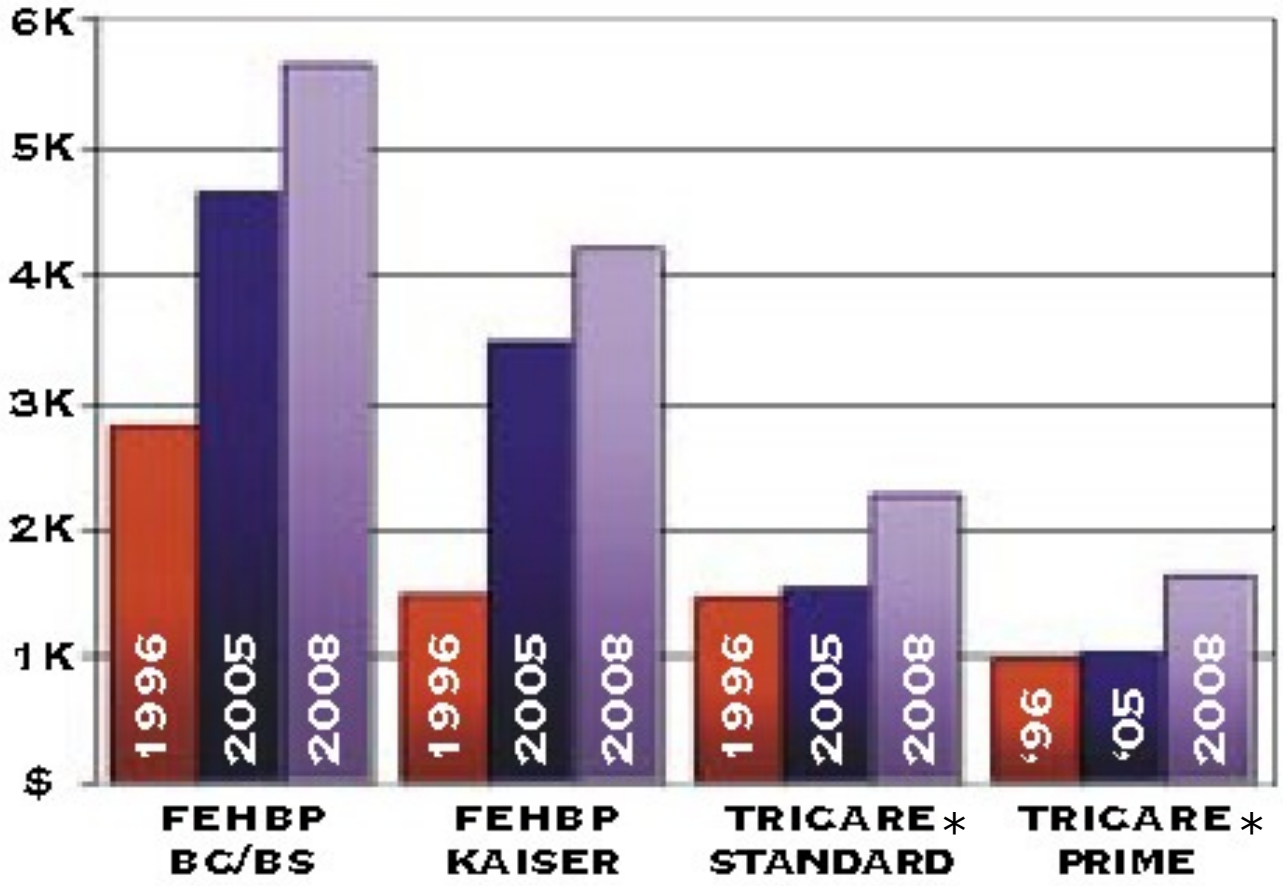
# Pharmacy Summary

- No Fees for Active Duty

**For ALL other beneficiaries (including over 65 TRICARE for Life retirees):**

- No Co-pays in Military Clinics
- Zero Co-Pay for Mail Order Generic medications
- Increases in Retail Pharmacy Co-Pays

# Out of Pocket Expense Comparison




* **Depicts costs for a TRICARE Retiree Family of 3 for care received in the private sector**

# Conclusions

- The TRICARE benefit will remain the best health benefit offered in this country – we serve a special population, and they deserve the best.

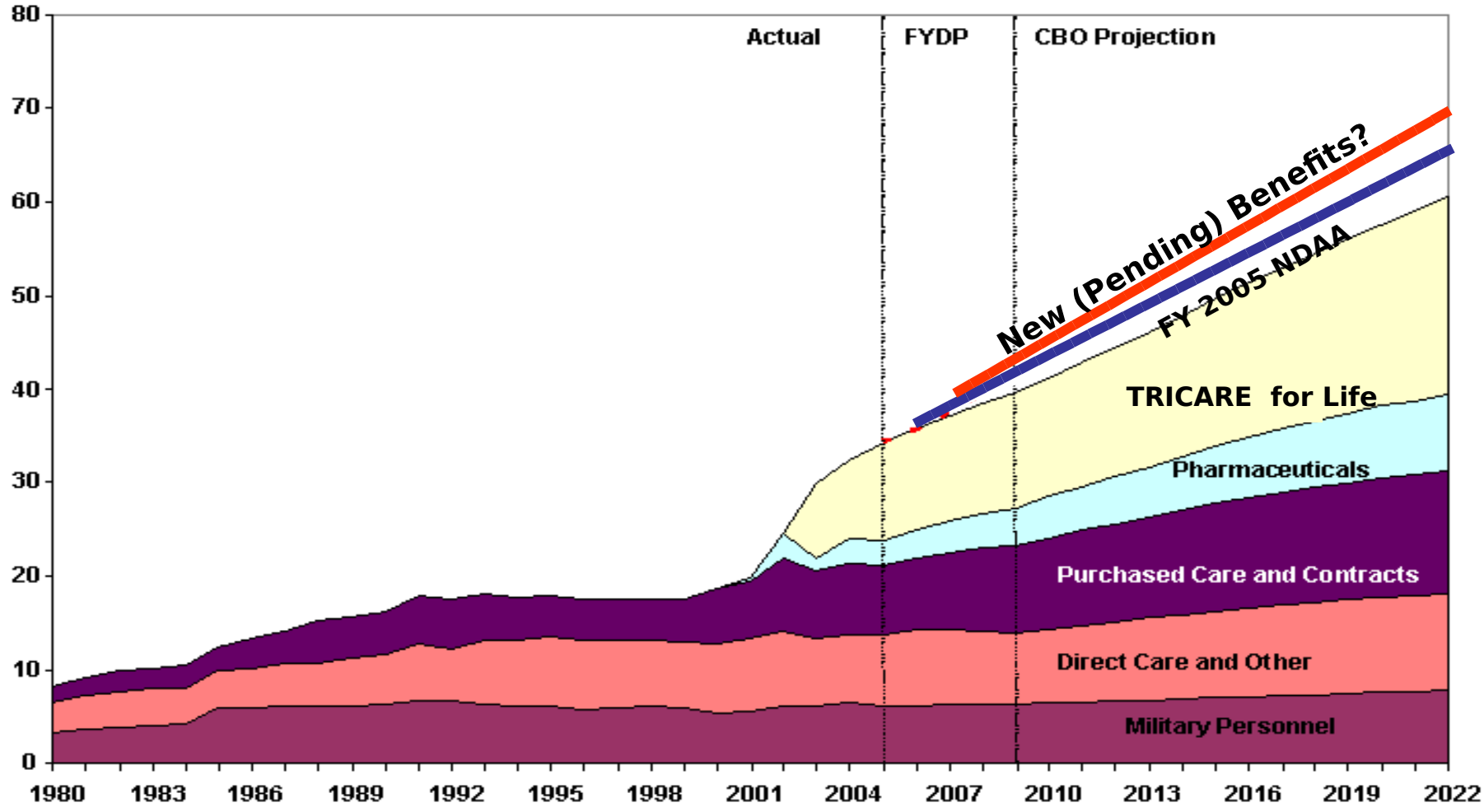
- During FY07-08 we are instituting a set of changes to annual enrollment fees, co-pays and deductibles. These changes will help achieve a financial balance between government and individual health care contributions and approach what existed in 1995 when TRICARE was inaugurated.

- We will avoid the need for large-scale benefit changes in the future by making annual adjustments that reflect rising federal health costs.

- Changes now will allow us to sustain excellence in quality and customer service while placing the program on a stable financial footing for the long term.

# Back-up Slides

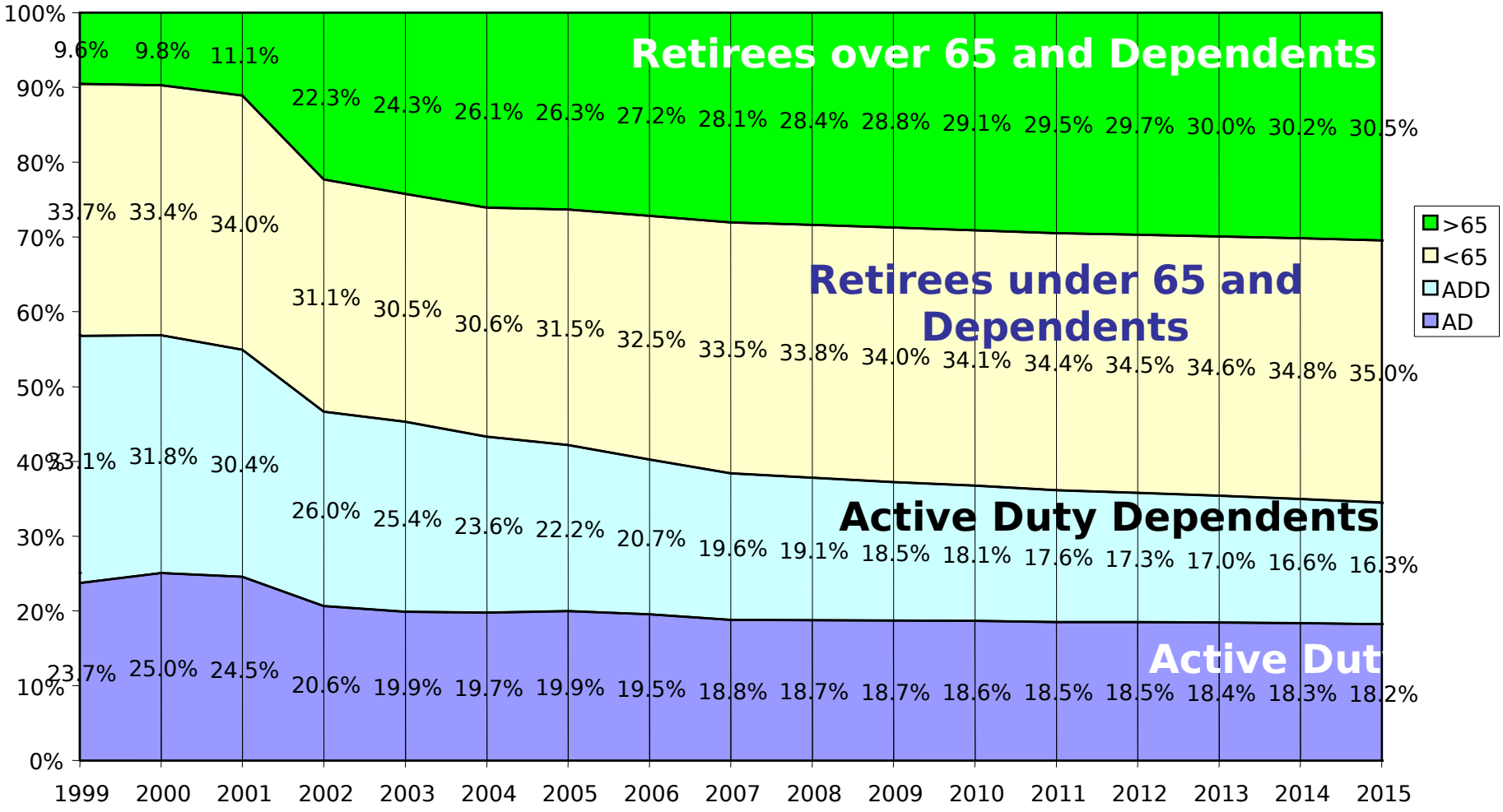
# Military Health System Cost Growth Projection



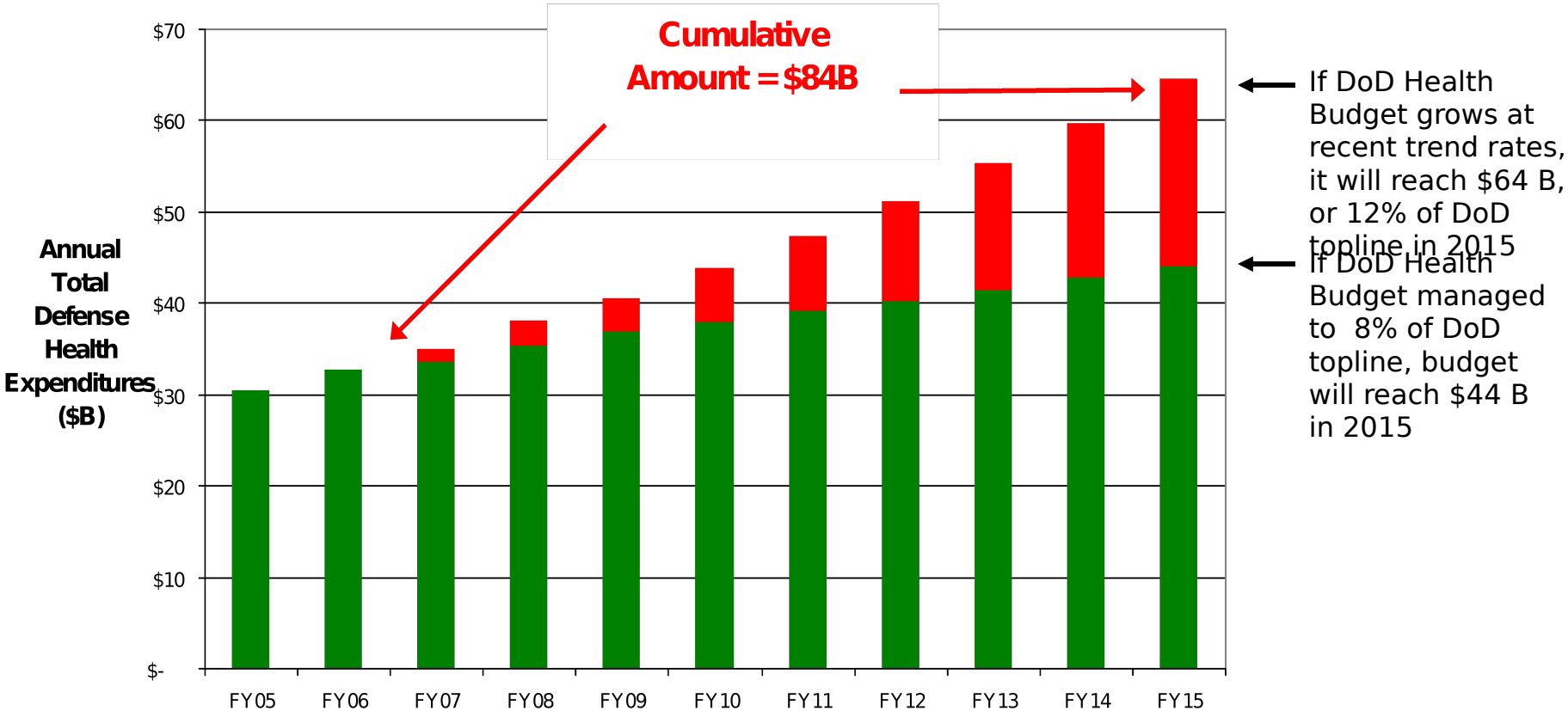

Source: Congressional Budget Office - 2004

# Beneficiary Share of DHP

**Percent of DHP Health Care Expenditures by Beneficiary Group**
**With <65 Users Approaching 87% by 2011 and Growth Limited to MCSC**



# Value of Managing Defense Health Spending




**2006 DoD Health Budget = 8% of total DoD Budget Projections are for 12% by FY 2015**

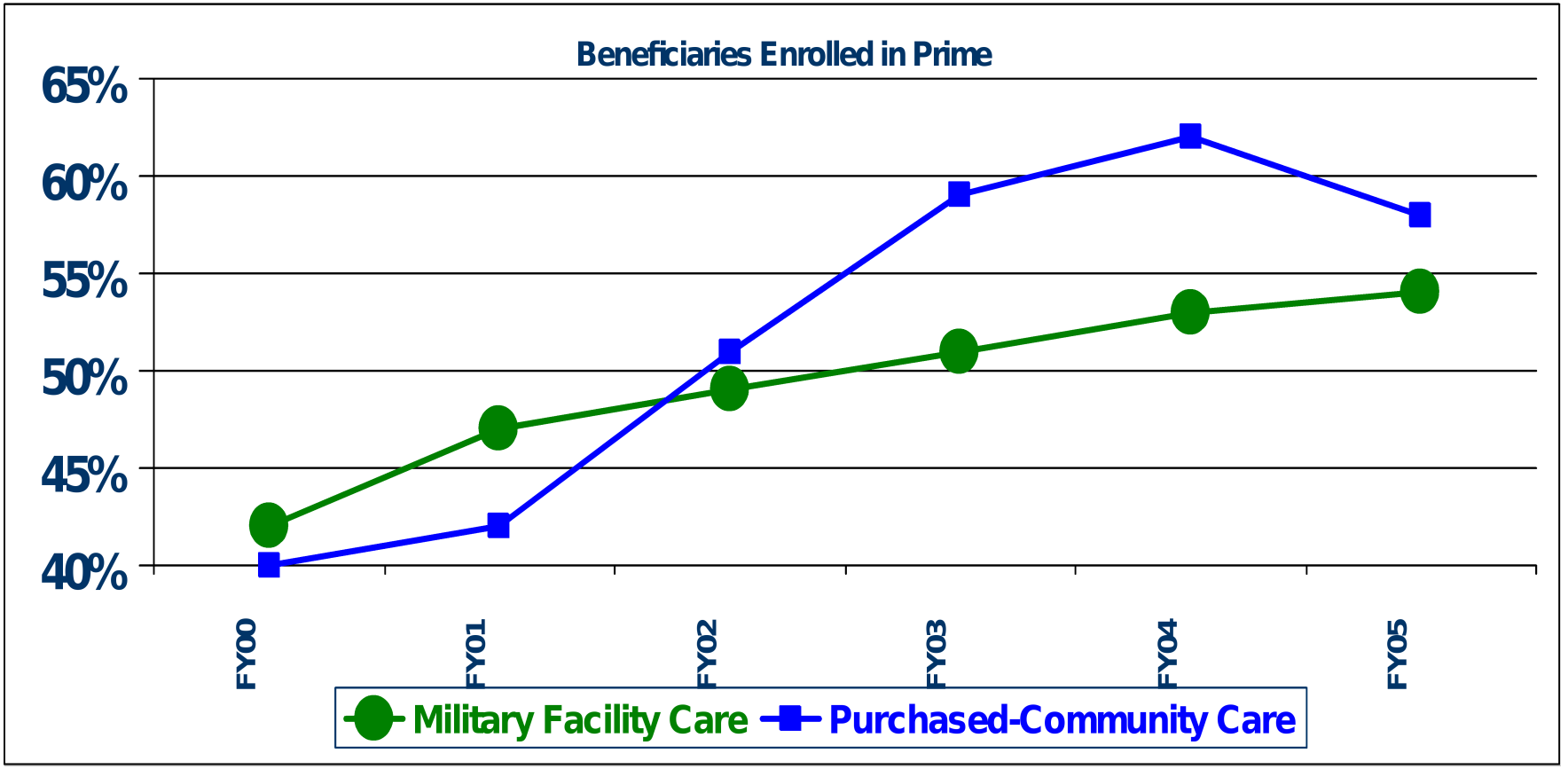
# Retiree <65 Eligible Population (As of YE FY 05)

| Retirees | Family Members | Survivors | Total |
|---|---|---|---|
| E-6 and Below | | | |
| **372,561** | **592,218** | **69,591** | **1,035,370** |
| 33% | 32% | 48% | 33% |
| E-7 and Above | | | |
| **514,379** | **847,474** | **52,724** | **1,414,577** |
| 45% | 46% | 36% | 45% |
| Officers | | | |
| **210,616** | **345,204** | **20,133** | **584,953** |
| 19% | 19% | 14% | 19% |
| Warrant Officers | | | |
| **34,427** | **56,554** | **4,000** | **94,981** |
| 3% | 3% | 3% | 3% |
| **Totals** | | | |
| **1,131,983** | **1,851,450** | **146,448** | **3,129,881** |

| | |
|---|---|
| Active Duty/Reserve | **1,801,893** |
| AD/Res Family Members | **2,463,303** |
| Retirees & Family Members < 65 | **3,129,881** |
| Retirees & Family Members >65 | **1,769,537** |

# Satisfaction with TRICARE = Value

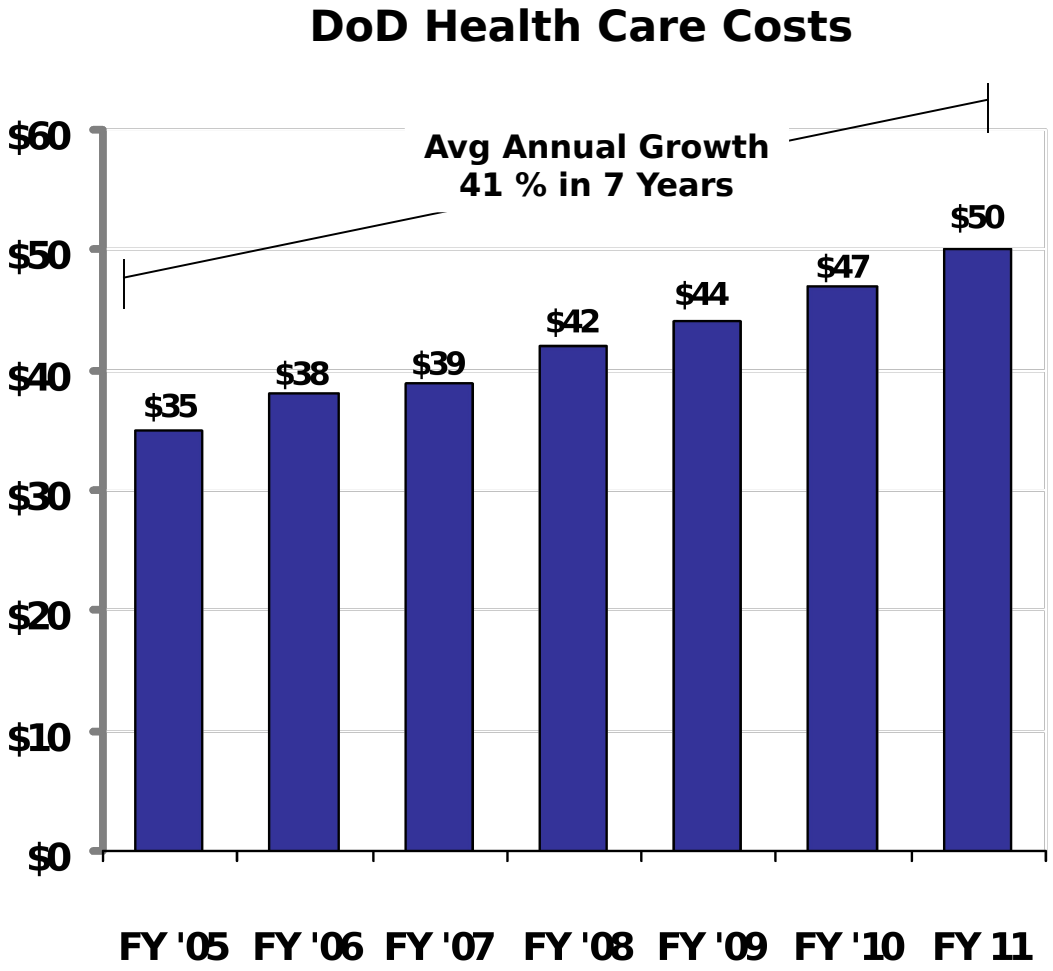
% Very Satisfied




**Satisfaction has dramatically improved**

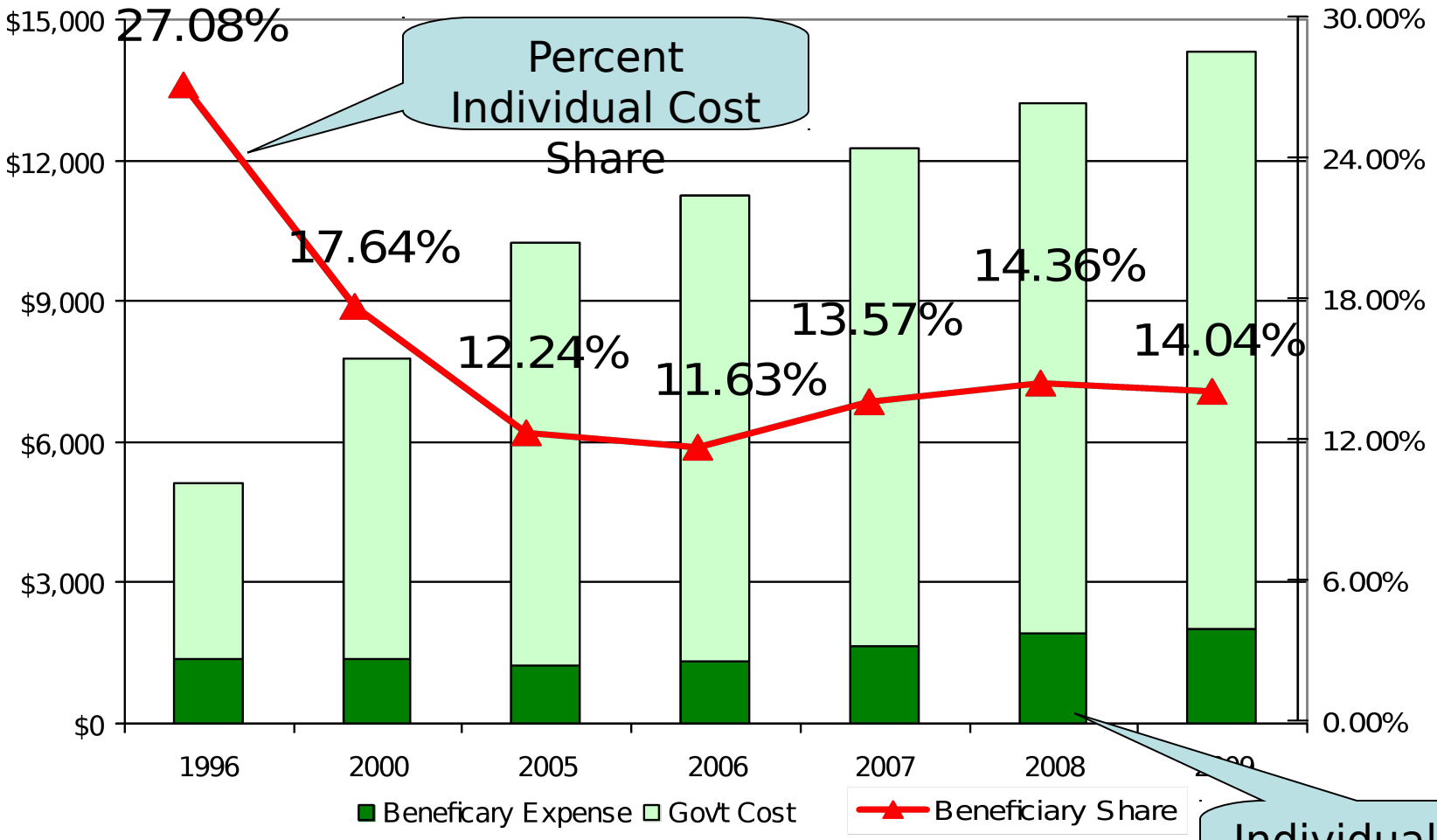
# Sustaining Military Health Care

- DoD provides the best health coverage in the Nation.
- Our Goal is to maintain exceptional health care coverage for those who serve by placing the program on a fiscally sound foundation for the long-term.



# Beneficiary Share Trends

## Prime and Standard Mix With Proposed Changes




- Assumes all care received in the civilian sector for a family of 3.
- Blended TRICARE rate is based on Ratio of Standard to Prime